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**BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554**

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**FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY**

In the Matter of)
)
Revision of Part 22 and Part 90)
of the Commission's Rules to)
Facilitate Future Development of)
Paging Systems)
)
Implementation of Section 309(j))
of the Communications Act --)
Competitive Bidding)

WT Docket No. 96-18

PP Docket No. 93-253

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To: The Commission

**COMMENTS OPPOSING THE COMMISSION'S PLANNED
RADICAL RESTRUCTURING OF THE PAGING INDUSTRY AND
RELATED CHANGES TO THE PAGING LICENSING PROCESS**

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Summary

The Commission's NPRM proposes to radically alter the structure of the paging industry and how paging licenses are obtained. The NPRM proposes to create artificial, federally regulated, wide-area paging markets. Additionally, the Commission proposes to institute market build-out rules which require paging system construction regardless of demand. Adoption of the Commission's proposed market restructuring rules is not required and is not supported by known facts or existing law.

The paging industry has existed for nearly fifty years. During that time paging service providers proposed and constructed paging systems based upon demands of the market place. If a particular locality demanded paging service, a paging service provider would file an application with the Commission. Upon receipt of Commission approval the necessary equipment to provide the service would be installed.

The NPRM notes that the paging industry is rapidly expanding. The NPRM notes that there are no application backlogs associated with lower band paging applications. The NPRM notes that applications for the lower paging bands are substantially comprised of fill-in and expansion applications filed by existing licensees. Under these circumstances, there is no problem which would be solved by the Commission's proposed "solution."

In fact the Commission's proposal, if adopted, would cause serious paging service problems contrary to the public interest. Existing paging service providers, except for the "lucky" regional licensee, would be unable to expand systems as subscriber demand

developed. The "lucky" regional licensee, in congested areas, would be required to pay inflated buy-out prices for existing paging systems in order to meet the Commission's artificial build-out requirement.

There are several legal problems with the Commission's proposal. First, the Communications Act does not permit the Commission to auction spectrum which a licensee seeks to modify its existing system; the Communications Act does not permit the Commission to auction spectrum for non-mutually exclusive applications for an initial license. The NPRM and the Commission's public notices indicate that mutual exclusivity for lower band Part 22 frequencies is only an infrequent concern. By creating large area markets, the Commission's proposal appears intended to create mutually exclusive situations where none would exist under current licensing rules. Congress specifically directed the Commission to use its rule making process in an effort to avoid mutual exclusivity. It is improper for the Commission to use its rule making process to create mutual exclusivity in a service which is essentially local in nature.

Finally, the Commission does not at all assess the financial impact its rules will have on small businesses. Specifically, the Commission fails to discuss the impact new costs associated with a) the bid amounts for large markets; b) the added costs associated with the purchase of substantially more equipment to meet the artificial build-out requirement; and c) the open-ended copyright liability and/or copyright enforcement litigation costs pertaining to the use of Rand McNally's MTA market structure.

Introduction

Mashell Connect, Inc. (Mashell), by its attorney, hereby submits comments in opposition to the Commission's fundamental restructuring of the paging industry market structure and the paging licensing process proposed in the Notice of Proposed Rule Making (NPRM) in the captioned docket.¹ In opposition thereto, the following is respectfully submitted:

Description Of Mashell And Description Of Interests Affected By The Commission's Proposed Restructuring

1) Mashell is a rural telephone exchange company located in Washington which provides a variety of communications services. Mashell would qualify as a small business under the Commission's

¹ The NPRM at paragraph 20 states that

in the Part 22 Rewrite proceeding, we received numerous comments suggesting that we adopt geographic licensing procedures for paging instead of continuing to license paging systems. (Emphasis added.)

Reference to paragraph 9 of the Part 22 Rewrite discloses that only "several parties" made the suggestion. 9 FCC Rcd. 6513, 6515. Footnote 23 of the Part 22 Rewrite discloses that only the Personal Communications Industry Association (formerly Telocator), Paging Network, Inc., and the Office of Advocacy of the Small Business Administration suggested the proposed radical restructuring of the paging industry. It is not understood why three pleadings filed in the Part 22 Rewrite proceeding now constitute "numerous comments" rather than "several" comments. We trust the Commission will find an appropriate superlative to describe the "mountain" of comments against the proposed changes which are filed in the instant proceeding.

auction rules adopted in other services and under the small business rules at issue instantly.²

2) Mashell is currently considering providing paging service to a small area in Washington State. Mashell intends to provide common carrier paging services in the lower frequency bands. Mashell's intended paging service area would be much smaller than the large regional areas proposed to be licensed by the Commission in the captioned rule making proceeding.

**The Commission's Regional Licensing Proposal
Would Adversely Affect The Public Interest**

3) The Commission's regional licensing proposal would substantially and adversely affect Mashell's future plans to meet the public's paging demands by requiring it to invest significant sums of money in bids, equipment, and buyouts of co-channel systems in order to meet the Commission's buildout requirements. Expenditures of these sums to serve the localities of interest to Mashell is not feasible.

4) Any expansion would by Mashell would, in fact, gain little territory compared to the size of the Commission's proposed regional licensing areas. Thus, the Commission's proposal to adopt artificially large paging markets would cause Mashell to bid to provide service to markets in which it has no interest.

5) If adopted in their current form, the Commission's proposed regional paging licensing scheme cause paging applicants

² Average annual revenues over the past three years for all affiliated businesses is less than \$12 million.

to proceed in one of two ways, neither of which advances the public interest. First, potential bidders for extensively utilized paging channels would understand that in order to expand an existing system it must 1) bid on a large area regardless of current paging demand and financial resources and 2) buy-out co-channel neighbors under circumstances in which the co-channel neighbor knows that the successful bidder is required to meet build-out requirements. Thus, the Commission's proposed rules will cause an artificial premium to be placed on paging system sale prices to the monetary benefit of the seller but to the detriment of everyone else.³

6) Second, the Commission's proposed regional paging licensing scheme informs paging licensees that it is not rational to pay the Federal government in order to obtain an opportunity to pay a neighbor an inflated paging system purchase price. Thus, the Commission's proposed regional paging licensing scheme would cause paging system expansion to grind to a halt while public paging demand goes unmet.⁴

³ Even the seller at an inflated price may not be happy. Many companies are in the paging business to provide service to the public. Such companies do not want to be forced out of the paging business because expansion is impossible, even if the buy-out price is at some premium. In those areas in which frequencies are not congested, paging system values will decline because there is no expansion possibility and because there is no buyer who must purchase the system to meet the Commission's artificial build-out requirement.

⁴ Purchases of paging systems are permitted during the pendency of the NPRM. NPRM, at para. 139. The NPRM does not explain why a paging operator, or a paging industry entrant, will be willing to pay the Federal government for the opportunity to buy an existing paging system at inflated prices when those same paging systems are available today at market prices which
(continued...)

**The Commission's Proposed Regional Licensing Scheme
Would Impermissibly Require Mashell To Go To
An Auction In Order To Modify Its Existing Paging System**

**A. The Commission's Proposal Would Improperly
Create Mutually Exclusive Situations**

7) The Commission acknowledges that demand for paging frequencies for the lower CCP channels is not substantial and there is no application backlogs for these frequencies. NPRM, para. 28. The Commission has previously determined that mutually exclusive paging applications should be subject to auctions. Second Report and Order, 75 R.R.2d 1, 17 (Comm'n 1994). All that is left to do is to determine which auction procedures are best suited to various situations which arise in the paging industry.⁵

8) Rather than merely determine an appropriate auction process for mutually exclusive paging applications, however, the Commission has proposed fundamental alterations to the paging industries' market structure and to the paging service's licensing schemes. Yet, despite the Commission's acknowledgement that the

⁴(...continued)

are unaffected by artificially created, Federally regulated, market boundary and service rules.

⁵ If mutually exclusive paging applications are filed for the lower paging channels, the Commission could accept sealed bids from the two or three applicants. In the past, generally only two or three mutually exclusive applicants would be involved in the relatively rare mutually exclusive situations which arose. The sealed bid procedure has the potential to work much more rapidly than the previously used lottery procedure in which the staff would wait for months for enough mutually exclusive situations to arise to warrant conducting a lottery. The Commission could adopt a rule which states that a bid must be submitted within 30 days after a public notice noting the mutually exclusivity.

paging industry is expanding rapidly, NPRM, para. 6, despite the Commission's acknowledgement that "current licensing on the lower paging bands is confined largely to the addition of fill-in sites and minor expansion by existing licensees," NPRM, para. 13, and despite the nearly fifty years in which market demands have determined where and when paging stations shall be constructed, the Commission has preliminarily determined that Federal regulation of paging market sizes and paging system build-out rates is required.

9) Congress directed that "the Commission should, in the public interest, continue to use engineering solutions, negotiation, threshold qualifications, service rules, and other means in order to avoid mutual exclusivity." H.R. Rep. No. 111, 103d Cong. 1st Sess. 258 (1993). Rather than follow this clear Congressional mandate, and after nearly fifty years of a free market approach, the Commission has proposed creation of artificial, federally-sized paging markets. This market structure is intended to create mutually exclusive application situations for the purpose of holding auctions in direct contravention of Congress' stated intent!⁶

⁶ As discussed in footnote 7 above, mutual exclusivity application situations in the lower band common carrier channels is quite rare. The Commission itself acknowledges that "current licensing activity on the lower paging bands is confined largely to the addition of fill-in sites and minor expansion by existing licensees." NPRM, para. 13. Thus, it appears that the Commission is proposing rules with the purpose of creating mutually exclusive application situations contrary to Congressional intent.

**B. The Commission's Proposal To Change To Wide Area
Licensing Is Not Supported By The Law Or The Facts**

10) The NPRM proposes to turn what are essentially intrastate paging services into interstate services through adoption of the Rand-McNally MTA market structures; Rand-McNally MTAs generally overlap state lines. In 1987 the Court of Appeals for the D.C. Circuit determined that the Commission exceeded its authority when it attempted to preempt state entry regulation of intrastate common carrier mobile services. See Memorandum Opinion and Order, 2 FCC Rcd. 6434 (Comm'n 1987).⁷ The court made its determination even though pagers could be triggered by out-of-state calls and even though some paging systems crossed state lines.

11) The NPRM does not list factors which lead to the conclusion that the essentially local nature of the paging industry has changed substantially way since 1987. Thus, the Commission attempt to turn what is essentially a local service to a wide-area, interstate service is unfounded.

12) Mashell intends to construct a paging system whose service area would be wholly within one state. Furthermore, the initial comments filed in the earlier portion of this rulemaking (interim licensing) demonstrate that the essentially local nature of the paging industry remains: Many carriers indicated that their

⁷ Recent amendments to the Communications Act prohibit state entry/rate regulation absent authorization from the Commission. However, the pertinent point is that paging has been determined by the court to be an essentially intrastate service offering.

service areas are much smaller than the MTA's proposed by the Commission.⁸

13) Moreover, the NPRM itself acknowledges the continued local nature of the paging industry. The Commission states that

with respect to the lower band channels -- most of which continue to be occupied by smaller systems -- we propose to maintain the current height-power limits, so that we can continue to limit the range of each facility and promote spectrum efficiency. NPRM, para. 61

14) Thus, the Commission recognizes that, at least for the lower paging channel bands, small systems predominate. Moreover, the Commission acknowledges that the reach of these systems is kept to a minimum to promote the efficient use of spectrum. Adoption of a regional licensing system ignores the fact that paging is essentially a local service. As described above, the creation of Federally regulated, artificial market boundaries and service rules will require spectrally inefficient system construction: service must be provided to locations solely to meet numerical build-out goals rather than to satisfy market place demands for service. The

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See, e.g., Comments Opposing the Paging Application Filing and Processing Freeze and Comments Concerning the Interim Licensing Proposal (Porter Communications, Inc.) p. 1; Comments Opposing the Paging Application Filing and Processing Freeze and Comments Concerning the Interim Licensing Proposal (Chequamegon Telephone Cooperative, Inc.) p. 1; Comments Opposing the Paging Application Filing and Processing Freeze and Comments Concerning the Interim Licensing Proposal (Baker's Electronics and Communications, Inc.) p. 1; Comments Opposing the Paging Application Filing and Processing Freeze and Comments Concerning the Interim Licensing Proposal (Paging Associates, Inc.) p. 1.

Commission's own findings indicate that adoption of regionwide, spectrally inefficient licensing is inappropriate.⁹

**The Commission's Initial Regulatory Act Analysis
Improperly Fails To Consider The Financial
Impact Upon Small Business**

15) The Commission's Initial Regulatory Flexibility Analysis (IRFA) concludes, without explanation, that

the competitive bidding proposals contained in the Notice, if adopted, are expected to benefit small entities. These proposals would establish special provisions designed to facilitate small businesses' ability to access capital and to enter the wireless market. The proposed changes to the Commission's rules also will increase the flexibility of small businesses and lessen the administrative burden on small entities. NPRM, Appendix A, p. 2.

The Commission's unsupported conclusions do not constitute an adequate Regulatory Flexibility Act analysis and the Commission's IRFA fails to consider acknowledged, significant, open-ended costs and the impact that those costs will have upon small businesses.

16) First, it is not at all clear how competitive bidding will benefit small entities. The Commission does not know what a small entity is. The "small business" PCS auction which is currently underway demonstrates the severe inadequacies with the operation of the Commission's small business auction rules. The

⁹ Because paging is essentially a local service, there are no interdependancies among markets and sequential, sealed bids would be appropriate. See footnote 8 above.

Commission's "small business" PCS auction has participants which are able to bid more than \$1 billion each!¹⁰

17) We do not mean to imply that those businesses are not in compliance with the Commission's small business rules. The point is that "small business" to the Commission means something entirely different than it does to most others. To the extent that the PCS "small businesses" are in compliance with the Commission's "small business" rules, the questions which arise are 1) where is all the money coming from; and 2) are the "small businesses" merely fronting for wealthy investors?¹¹ There is nothing in the NPRM which addresses this problem.

18) Second, under the current rules a small entity may propose paging service to one or two communities and then expand the system over time as the market place demands. The current rules do not require auction payments to the Federal government and financial barriers to entry are small. NPRM, para. 122.

19) The proposals contained in the NPRM would create artificially large paging market areas and would regulate the timing of service to various communities. These factors will significantly increase the entry/construction/operating costs for small businesses. Moreover, small entities would face a new,

¹⁰ It is believed that the Commission is the only organization on the planet where a company can bid more than \$1 billion and still be classified "small business."

¹¹ There are tens of thousands of small businesses in the United States. The Commission structured its PCS small business auction such that only several could significantly participate.

significant barrier to entry, namely, the payment of some unknown bid amount to the Federal government. Contrary to the Commission's conclusion, these substantial, new costs do not benefit small businesses. The Commission's IRFA fails to address these significant costs and justify those costs in view of the public interest. Thus, the proposed rules cannot be adopted.

20) Third, the Commission has not assessed the costs of potential royalty payments and/or court litigation expenses relating to the NPRM's proposal to use the Rand McNally MTA/BTA Listings. The Commission states that a copyright license from Rand McNally must be obtained. NPRM, para. 35.¹² The Commission leaves it to the small businesses to deal with these costs. However, it is the Commission's responsibility to address those costs and assess their impact upon small businesses.

21) The Commission has failed to assess the impact of these open-ended copyright royalty/litigation costs upon small businesses.¹³ Thus, the Commission has failed to meet its Regulatory

¹² The Rand McNally MTA/BTA Listings are merely groupings of county names. Such listings do not constitute an original work of authorship and thus are not copyrightable. Feist Publication, Inc. v. Rural Telephone Service, Inc., 499 U.S. 340_ (1991), 113 L. Ed. 358. Thus, it is at best debatable as to whether Rand McNally's copyright is valid. More importantly, the Commission is not the appropriate forum to determine whether a copyright is valid and the Commission's attempted validation of Rand McNally's copyright is ultra vires.

¹³ It is arbitrary, capricious, and not in accord with law for the Commission to establish a private party as an unregulated monopoly provider of information which is critical to the preparation of paging applications. The monopoly provider of
(continued...)

Flexibility Act responsibilities and the subject proposal may not be adopted.

22) Fourth, the Commission's conclusion that the proposals contained in the NPRM "will increase the flexibility of small businesses and lessen the administrative burden on small entities" is without support. Existing licensees, except for the one who is the sole regional licensee on the pertinent frequency, will be unable to expand their systems.¹⁴ One cannot conceive of a greater example of regulatory "inflexibility" than a regulation which prohibits expansion required to meet public demand.¹⁵

23) Moreover, it is not clear how the proposed reduced application filing requirements will operate in view of the fact

¹³(...continued)

such information may charge whatever it pleases for that information. The Commission was advised of this same problem in the PCS auction rule making proceeding. See December 28, 1993 Comments to Petitions for Reconsideration (Hill and Welch) in Gen Docket No. 90-314. Before the Personal Communications Industry Association made a payment to Rand McNally, Rand McNally proposed that each law firm, engineering firm, and each applicant pay thousands of dollars for a license to use the MTA/BTA county listings. If the Commission is not similarly rescued in the paging context, the proposed use of the Rand McNally MTA/BTA Listings will not stand.

¹⁴ Because there are currently many licensees in an MTA on any given paging channel, the Commission's aspiration "that in many instances, these existing licensees will seek and obtain geographic licenses" is impossible to satisfy. NPRM, para. 22.

¹⁵ Accordingly, the Commission's statement at paragraph 22 of the NPRM that its proposed rules "would simplify paging system expansion" is not correct. The majority of licensees on any particular paging frequency, save for the one lucky regional licensee, will find it impossible, not simple, not even difficult, to expand under the Commission's proposed rules.

that existing licensees' stations must be protected. It is assumed that at least an FCC Form 489 will be required to show protection to neighboring stations.¹⁶ However, what happens if the regional licensee is wrong and protection is not afforded to a co-channel station?¹⁷ What notice would be provided to existing co-channel paging service providers that a new co-channel station became operational? How would the existing service provider be able to trace subscriber interference complaints to an improperly operating regional licensee paging station if there is no notice that a new co-channel station is on the air? Finally, why should an existing service provider be subject to the interference caused by a regional licensee during the time, probably prolonged, that an interference complaint is pending at the Commission?

Conclusion

24) In view of the findings in the NPRM which show that the paging industry is expanding vigorously, and in view of the essentially local nature of the paging industry, the Commission's

¹⁶ The processing time for an uncontested Form 600 application for Part 22 paging service is generally less than three months. It is assumed that at a minimum an FCC Form 489 filing will be required so that the Commission is assured that the regional licensee is protecting co-channel stations. Thus, while the regional licensee may save three months on the processing line, there seems to be no monetary savings in filing expenses, except that the filing fee for an FCC Form 489 is \$45 while the filing fee for an FCC Form 600 is \$265.

¹⁷ To our knowledge direct access to the Commission's Part 90 and Part 22 data bases is not permitted. Thus, the private industry must rely upon private data bases -- oversight of co-channel stations is possible and occurs occasionally.

proposal to turn the paging industry into an exclusively interstate service through the creation of artificial paging markets is neither supported by the facts nor the law. The paging industry is currently a free market with minimal entry barriers, including existing Federal regulation, which permits paging service providers to provide service to communities as subscriber demand warrants.

25) The Commission's proposed creation of artificially large paging markets which must be served within a specified time does not achieve the Commission's goal that "competitive success is dictated by the marketplace, rather than by regulation." NPRM, para. 2. Indeed, the NPRM proposes to erect significant barriers to entry and expansion for all businesses, especially as far as small businesses are concerned.

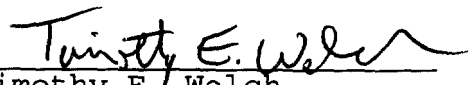
26) Moreover, contrary to the requirements of the Regulatory Flexibility Act, the Commission has not properly addressed the impact of its proposed restructuring of the paging industry on "small businesses," as that term is generally understood. Significant costs owing to auction bids, significant equipment costs owing to the large area build-out requirement, significant co-channel buyout expenses, and open-ended copyright royalty/litigation have not been addressed by the Commission. Because "small businesses" cannot afford the Commission's "remedy" for an industry which is not sick, and because the Commission has not shown that the public interest requires the exclusion of small businesses from the paging industry, an industry which currently has only insigni-

ficant entry barriers,¹⁸ the Commission should not adopt its proposed rules.

WHEREFORE, in view of the information presented herein, the Commission should not adopt its proposed rules.

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Respectfully submitted,
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¹⁸ This assumes that paging spectrum is available. The Commission's proposal does not create spectrum -- any existing spectrum shortage will exist under the Commission's proposal. Thus, this barrier to entry is the same in both instances.